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LOCK-UP REPORT

Cotton and Products - September Quarterly Update

Approved By:
Holly Higgins
Prepared By:
Santosh Singh

Report Highlights:
Post's MY 2009/10 cotton production estimate has been lowered to 24.2 million bales on expected lower yields due to erratic monsoon rains and extended dry spells in the cotton growing areas. Nevertheless, India is set to harvest a record cotton production in the upcoming season as area is expected to increase to a record 10.2 million hectares as farmers have shifted to shorter duration cotton vis-à-vis other competing crops due to poor monsoon. Consumption is raised to 18.9 million bales on strong domestic demand and sufficient supplies.

Post:
New Delhi

Author Defined:

Table 1: Commodity, Cotton (480 lb bales), PSD

Cotton India	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Aug 2007			Market Year Begin: Aug 2008			Market Year Begin: Aug 2009		
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data		Jan
			Data			Data			Data
Area Planted	0	9,439	9,439	0	9,373	9,373	0	9,580	10,200
Area Harvested	9,439	9,439	9,439	9,373	9,373	9,373	9,650	9,580	10,200
Beginning Stocks	7,664	7,664	7,664	7,384	7,504	6,584	10,484	11,829	9,729
Production	24,600	24,600	24,000	22,500	23,000	22,600	25,000	25,000	24,200
Imports	450	600	600	550	625	625	400	390	400
MY Imports from U.S.	0	0	187	0	0	190	0	0	180
Total Supply	32,714	32,864	32,264	30,434	31,129	29,809	35,884	37,219	34,329
Exports	7,030	7,030	7,030	2,200	2,000	2,200	6,400	7,800	6,400
Use	18,300	17,160	17,160	17,750	16,200	16,400	18,300	17,200	17,300
Loss	0	1,170	1,490	0	1,100	1,480	0	1,250	1,550
Total Dom. Cons.	18,300	18,330	18,650	17,750	17,300	17,880	18,300	18,450	18,850
Ending Stocks	7,384	7,504	6,584	10,484	11,829	9,729	11,184	10,969	9,079
Total Distribution	32,714	32,864	32,264	30,434	31,129	29,809	35,884	37,219	34,329

Note: Production figures in the table include 937,000 bales of loose cotton.

Bumper MY 2009/10 Crop Despite Monsoon Woes

Post revises the MY 2009/10 cotton production forecast down to 24.2 million bales on lower yield prospects due to the failure of monsoon in July and early August in most of the cotton growing areas [1] . Nonetheless, post forecasts a record cotton harvest on a record cotton planting. Based on the provisional planting estimates from the state agricultural departments (see Table 3), MY 2009/10 area is estimated to reach a record 10.2 million hectares, more than 8 percent higher than last year. Early industry estimates for the upcoming crop range from 22.6 to 24.6 million bales (29.0 to 31.5 million Indian bales of 170 kg) [2] .

With the revival of monsoon rains in August, cotton planting in the central and southern states recovered strongly as farmers shifted to shorter duration cotton vis-à-vis other competing crops (paddy, sugarcane, tobacco, etc). However, overall yield prospects have been tempered by delayed planting in most of the central and southern states and extended dry spells during the vegetative growth stage in most of the cotton growing areas. Market sources report that the early planted irrigated cotton crop in north India and parts of Gujarat have been adversely impacted by the drought-like conditions during the vegetative growth stage of the crop.

[1] See Monsoon Reports IN9107, IN9097, IN9091, IN9086 and IN9081.

[2] The Cotton Advisory Board (CAB) forecasted MY 2009/10 production at 30.5 million Indian bales of 170 kg in its August 29, 2009 meeting.

With the revival of monsoon rains in the later half of August, the crop is progressing well under adequate moisture conditions in most cotton growing areas. Area under officially approved Bt cotton varieties is estimated to increase by 10 percent over last year [1] as farmers shift away from lower yielding traditional cotton varieties and unapproved Bt hybrid seeds (including illegally produced Bt hybrids and F1 and F2 generation seeds of official hybrids). There are no reports of any damage due to pest incidence in any cotton growing areas. While the central and southern states will benefit from rains during September, heavy rains could hamper crop yield and quality in north India and parts of Gujarat.

Northern Region (Punjab/Haryana/Rajasthan)

Cotton planting in the largely irrigated northern region occurred on schedule by the end of May. The provisional planting estimates from the state agriculture departments indicate a 16 percent increase in cotton area over last year. Monsoon rains have been very scanty in the region during June/July resulting in the crop facing moisture stress during the vegetative growth stage, despite supplemental irrigation by the farmers. Consequently, the cotton plants are showing stunted growth vis-à-vis last year [2] . Due to the dry weather conditions, the incidence of pests (heliothis, white flies, bollworms) has been very low compared to last year. The crop is currently at flowering and early boll formation stage. With the recent late August rains, the crop is progressing well under adequate moisture conditions. However, with the smaller plant canopy, the numbers of bolls per plant are expected to be lower than last year. September weather will be crucial in determining the crop’s yield and quality, as rains and overcast conditions can affect early pickings.

Central Region (Gujarat/Maharashtra/Madhya Pradesh)

Planting in the largely rainfed cotton belt of central India started on a weak note with the delayed monsoon through mid-July. However, following occasional monsoon showers from late July through mid-August, plantings have progressed in spurts. Provisional estimates indicate record cotton planting in the region estimated at 6.7 million hectares, a near 9 percent increase over last year. The high returns from the last year’s cotton crop and delayed monsoon rains have encouraged farmers to shift area out of the competing crops to cotton in Gujarat and Maharashtra. However, extended dry spells have affected establishment of seedlings and early vegetative growth in some areas in Gujarat. The irrigated crop is currently at the early flowering stage,[3] while the rainfed crop is at the vegetative growth stage [4] , and both are progressing well under adequate moisture conditions. Market sources report that the crop needs additional rains after 15-20 days to support healthy growth of the standing crop. Assuming normal weather conditions during rest of the season, the central region is expected to get a bumper cotton production of 18.7 million bales, about 10 percent higher than last year.

[1] In MY 2008/09, area under officially approved Bt cotton estimated at 6.9 million hectares.

[2] Recent field survey revealed that the plant height is around 3-4 feet compared to 4-5 feet observed during the same time last year.

[3] Irrigated cotton - plant height 2-3 feet

[4] Rainfed cotton - plant height 1-2 feet

<u>Southern Region (Andhra Pradesh/Karnataka/Tamil Nadu)</u>

Cotton planting has been progressing well in Karnataka with adequate moisture availability. However, planting in Andhra Pradesh has progressed in spurts due to the

erratic monsoon rains during most of July and August. Market sources expect planting in the region to be over by second week of September. Currently, crop planting and growth is progressing well under adequate moisture, but the region needs more rain during September to support crop growth.

MY 2008/09 and MY 2007/08 Production Revised

Post's MY 2008/09 production estimate has been revised to 22.6 million bales based on the latest official market arrival estimates [1]. MY 2007/08 production has been revised down to 24.0 million bales based on the actual cotton bales pressing figures compiled by the Cotton Association of India from the ginning units [2] .

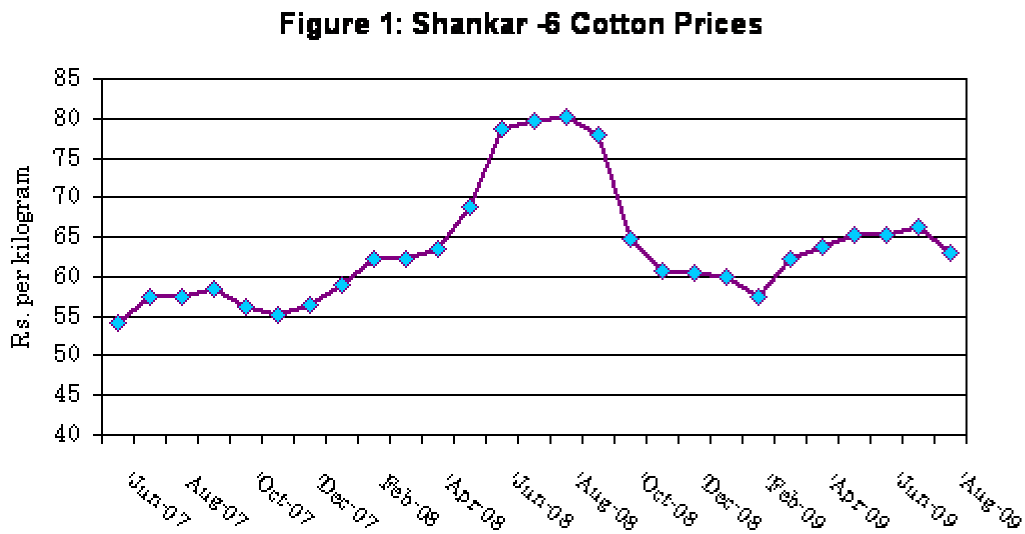
Prices Soften on Expected Bumper Crop

Domestic cotton prices eased in August (see Table 4) on the expectation of an upcoming bumper crop and sufficient cotton stocks with the mills. Current prices of most staple varieties range from 58 to 64 cents/lbs, marginally lower than July prices. However, Indian cotton prices are still not very competitive vis-à-vis other origins in the international market.

Most of the mills have cotton stocks to meet their consumption requirements through the end of October to mid-November. Prices are expected to remain stable during September/October, but likely to ease further in November as arrivals gain pace. However, the high minimum support price and government cotton procurement operation will contain any significant decline in cotton prices. Later during the season, international cotton prices will largely guide domestic price movements as the relative price of Indian cotton vis-à-vis other origins will impact the volume of exports and domestic supplies.

[1] Arrival up to August 14, 2008 is estimated at 22.544 million bales. For state-wise break-up, refer to the Cotton Corporation of India website http://www.cotcorp.gov.in/current_cotton.asp.

[2] The CAB revised the MY 2007/08 production to 30.7 million Indian bales (170 kg) based on the CAI cotton pressing figures. The CAB continues to estimate the 2008/09 production 29.0 million Indian bales (170 kg).



Consumption Raised

Post's MY 2009/10 consumption is revised higher to 18.9 million bales on expectations of continued strong domestic demand. The growth in consumption will be fueled by expected sufficient domestic supplies and continued strong domestic demand by the growing Indian population.

MY 2008/09 consumption is revised higher to 17.9 million bales following increased cotton yarn prices and a strong recovery in mills' cotton consumption from the month of April onwards. Industry sources report that most of the mills have increased their capacity utilization on strong domestic demand for textiles. Further, export demand has started stabilizing after spiraling downwards in 2008 and the first quarter of 2009.

MY 2007/08 consumption has been revised marginally higher to 18.7 million bales based on the revised non-mill consumption estimated by the Cotton Advisory Board in the August 29, 2009 meeting. Post has also revised the non-mill consumption of MY 2008/09 and 2009/10 to reflect the CAB estimate.

SECTION II – STATISTICAL TABLES

Table 2: Area, Production & Yield of Cotton in Major States

(Area in 000 hectares, Production in 000 bales of 480 lb., Yield in Kg/Hectare)

STATE		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Maharashtra	Area	2766	2840	2889	3107	3194	3133	3475
	Production	2420	4060	2811	3904	4841	4958	5778
	Yield	191	311	212	274	330	345	362
Gujarat	Area	1647	1906	2077	2390	2422	2417	2585
	Production	3904	5700	6949	8042	8589	6949	7418
	Yield	516	651	728	733	772	626	625
Madhya Pradesh	Area	591	576	600	639	630	655	645
	Production	1534	1249	1405	1484	1562	1405	1405
	Yield	565	472	510	505	540	467	474
Punjab	Area	452	509	557	607	604	537	535
	Production	808	1288	1562	1874	1562	1327	1249
	Yield	389	551	610	672	563	538	508
Haryana	Area	526	621	583	530	483	455	520
	Production	898	1210	1015	1171	1171	1093	1132
	Yield	372	424	379	481	528	523	474
Rajasthan	Area	344	438	472	350	339	223	365
	Production	714	859	859	703	703	625	898
	Yield	452	427	396	437	451	610	536
Andhra Pradesh	Area	837	1178	1037	972	1138	1345	1400
	Production	2139	2538	2499	2811	3592	4138	4060
	Yield	557	469	525	630	687	670	631
Karnataka	Area	313	521	450	378	402	390	450
	Production	328	625	508	468	625	625	781
	Yield	228	261	246	270	338	349	378
Tamil Nadu	Area	103	129	136	100	119	120	125
	Production	293	429	429	390	312	390	390
	Yield	619	725	688	850	571	708	680
Others	Area	51	68	72	71	108	98	100
	Production	78	78	78	78	78	156	156
	Yield	333	250	236	239	157	347	340
Loose	Production	859	937	937	937	937	937	937
All-India	Area	7630	8786	8873	9144	9439	9373	10200
	Production	13976	18973	19051	21862	23970	22604	24205
	Yield	399	470	467	521	553	525	517

Table 3: State wise Cotton Sowing Progress [1]

(Area in 100,000 hectares)

State	MY 2009/10		MY 2008/09	
	July 23	August 19	July 23	August 19
Maharashtra	28.50	34.65	22.53	29.57
Gujarat	20.98	25.85	19.57	22.30
Madhya Pradesh	6.17	6.44	6.12	6.18

Punjab	5.36	5.36	5.30	5.30
Haryana	5.20	5.20	4.55	4.55
Rajasthan	3.65	3.65	2.23	2.23
Andhra Pradesh	9.35	10.26	8.45	9.98
Karnataka	2.55	2.68	1.69	2.25
Tamil Nadu	0.10	0.10	0.09	0.09
Others	0.70	0.74	0.70	0.75
Total	82.56	94.93	71.23	83.20

Source: Directorate of Cotton Development, Ministry of Agriculture, Mumbai

[1] Planting will continue till second week of September in southern states. A small summer cotton crop in Tamil Nadu will be planted in November/December

Table 4: Month-end Prices of Popular Varieties

(Prices in Rupees per metric tons)

Year	**ICS 201** Bengal Deshi	**ICS 202** SG J-34 (25	**ICS 105** H-4 (28 mm)	**ICS 105** Shankar-6 (29 mm)	**ICS 106** MCU-5 (33 mm)	**ICS 107** DCH-32 (35 mm)

	(below 22 mm)	mm)				
2007/08						
Aug	43870	53150	55400	57360	63270	89980
Sept	43870	52020	56520	58490	63270	89980
Oct	42740	50050	53990	56240	63270	80140
Nov	47240	51740	52430	55120	58490	80140
Dec	47800	52870	54270	56520	59900	80140
Jan	47800	54550	56520	59050	61300	82670
Feb	47240	56800	59050	62140	63550	87170
Mar	53430	56800	59900	62140	68050	87170
Apr	54550	57930	61860	63550	68890	87170
May	65800	68610	66080	68890	73390	89980
June	69170	77610	78450	78740	81550	92800
July	70300	77050	78740	79580	84640	93640
2008/09						
Aug	75360	74520	79020	80140	82960	91390
Sept	70020	68050	77330	77890	81550	89980
Oct	74520	60740	63830	64680	69740	88580
Nov	71143	55396	60458	60739	68331	84360
Dec	73112	57646	59052	60458	65801	78736
Jan	72549	59052	58771	59895	63551	78736
Feb	64676	56240	55959	57365	61301	74518
Mar	64113	60739	59333	62145	64676	90265
Apr	65238	62989	59052	63832	65238	89984
May	67488	64676	61301	65238	66644	90546
Jun	67769	65238	61583	65238	67207	91108
Jul	66925	64957	63270	66363	68050	93077
2009/10						
Aug 28	66925	63832	62426	65519	68050	93077

Source: Cotton Association of India (Formerly East India Cotton Association), Mumbai